

## **The Louisiana Way Forward**

### ***FY 10-11 Budget Moves to a More Sustainable, Cost-Effective Government***

#### **FY 11 Budget: Introduction from Governor Bobby Jindal**

In the midst of a national economy that continues to struggle, this Executive Budget proposes fiscal restraint and a smaller, smarter, more streamlined state government, to safeguard Louisiana's economic gains and to preserve the promising momentum of our state's economy.

As it had long been predicted, the period of post-hurricane economic activity, fueled by an influx of federal recovery dollars and rebuilding investment, and reflected in bulging state coffers and surging government spending, has ended. In its place, and despite the national economic downturn, Louisiana's economy has continued to show resiliency, through robust economic development efforts that diversify our economy and fiscal policies that promote dynamic growth. Nonetheless, state government must also live within its means, and as state revenues have normalized, this budget proposal furthers our commitment to realign the size and cost of government to more sustainable, pre-Katrina levels.

News from across the country tells us that almost every other state has been similarly confronted with the repercussions of years of ever-expanding spending growth, which now, coupled with the national recession, simply cannot be sustained. In response, many states have attempted to maintain status quo spending, by raising taxes that only take more money from the people to fuel government. In Louisiana, we are pursuing a different, more fiscally responsible path, guided by an understanding that government should serve the function of improving economic opportunity, not stifling economic growth by imposing taxes on our people or our businesses.

While Louisiana's economy has outpaced the nation and the South in key economic indicators, we know that Louisiana is not immune to the national slowdown, and our citizens are understandably responding to uncertain economic conditions by exercising greater care with their money, spending less, and finding frugal ways to stretch every dollar. Louisiana's government should be no different.

Accordingly, we are focused on making government smaller, smarter, more responsive to the critical needs of our citizens, and more efficient in the way we deliver services.

Rather than shy away from the reality of projected multi-year budget challenges, we moved proactively to streamline government, and continued to reform our internal budgeting process to measure outcomes over outputs, and to prioritize programs that are actually achieving results.

As a result of these efforts, even as we recommend cost-savings across state government, this Executive Budget takes a thoughtful and targeted approach to spending reductions, implementing common-sense streamlining strategies that cut costs through efficiency measures, technology improvements, and outsourcing, as well as more far-reaching reforms that entail government restructuring, office consolidations, and eliminations of duplicative or lower-performing programs.

Given the state's fiscal challenges, we have to prioritize. With this approach, we position state government to improve the quality and effectiveness of essential services, and protect our priorities that help foster economic growth, business expansion and job creation.

While we continue to work for a solution to the loss of federal match associated with the Federal Medical Assistance Percentages (FMAP) and the loss of federal funding associated with the Disproportionate Share Hospital Payments (DSH) audit rule, the Executive Budget proposes no eliminations to Medicaid services or changes to eligibility requirements, while reforming the delivery of critical support services for our citizens most in need. Similarly, this budget proposes no reductions in state dollars to the classroom, for both the MFP in K-12 education, and for higher education institutions, to allow time for implementation of reforms that streamline and consolidate services and boost our unacceptably low graduation rates.

By reforming the way government works and protecting our priorities, state government is finding ways to do more with less while building a New Louisiana that is the best place in the world for our people to raise a family, get a great career, and pursue their dreams.

-- Governor Bobby Jindal

### **Budget Reductions and Returning Government to a Sustainable Size and Cost**

Louisiana state government faces significant, multi-year budget challenges, compounded by a faulty federal FMAP formula that, if not corrected in Washington, D.C., will cost the state approximately \$500 million a year in Medicaid funding, impacting services for the poorest in our state, and often those who need care the most. Federal changes to disproportionate share hospital (DSH) funding will also cost the state around \$200 million in health care funds, which will directly impact LSU hospitals, rural hospitals, and mental health care services.

In tough times, confronting these challenges requires hard choices, but it also calls for strategic action so that, even in the midst of the worst national recession since the Great Depression, Louisiana continues to build a brighter future for all our citizens while providing support, and a meaningful path forward, to the neediest among us.

While protecting critical services and streamlining government operations, the FY 11 Executive Budget reflects reductions in all means of finance, as follows:

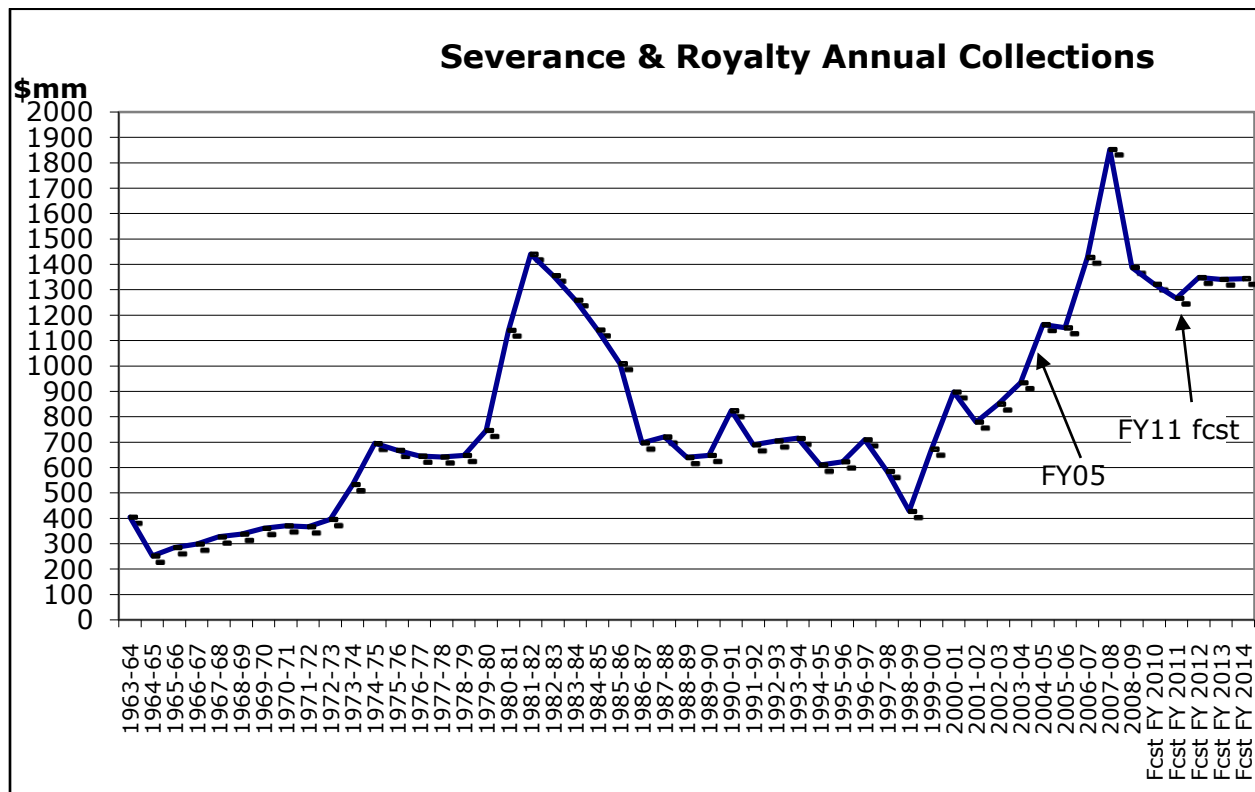
- The FY 11 Executive Budget proposes General Fund Direct funding of \$8.025 billion, a decrease of \$1.021 billion, or 11.3 percent, compared to \$9.046 billion in General Fund Direct funding in the FY 10 existing operating budget.
- The FY 11 Executive Budget proposes Total State funding of \$13.228 billion, a decrease of \$1.297 billion, or 8.9 percent, compared to Total State funding of \$14.525 billion in FY 10.

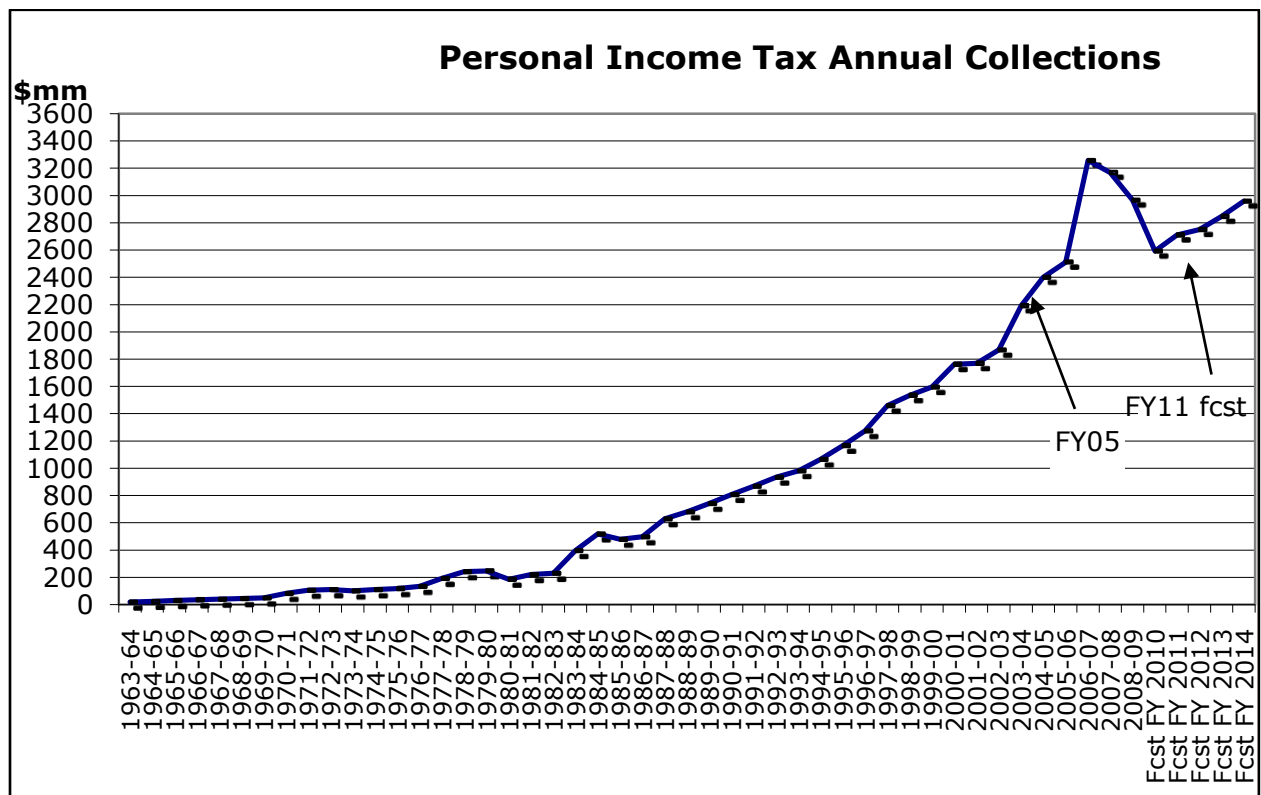
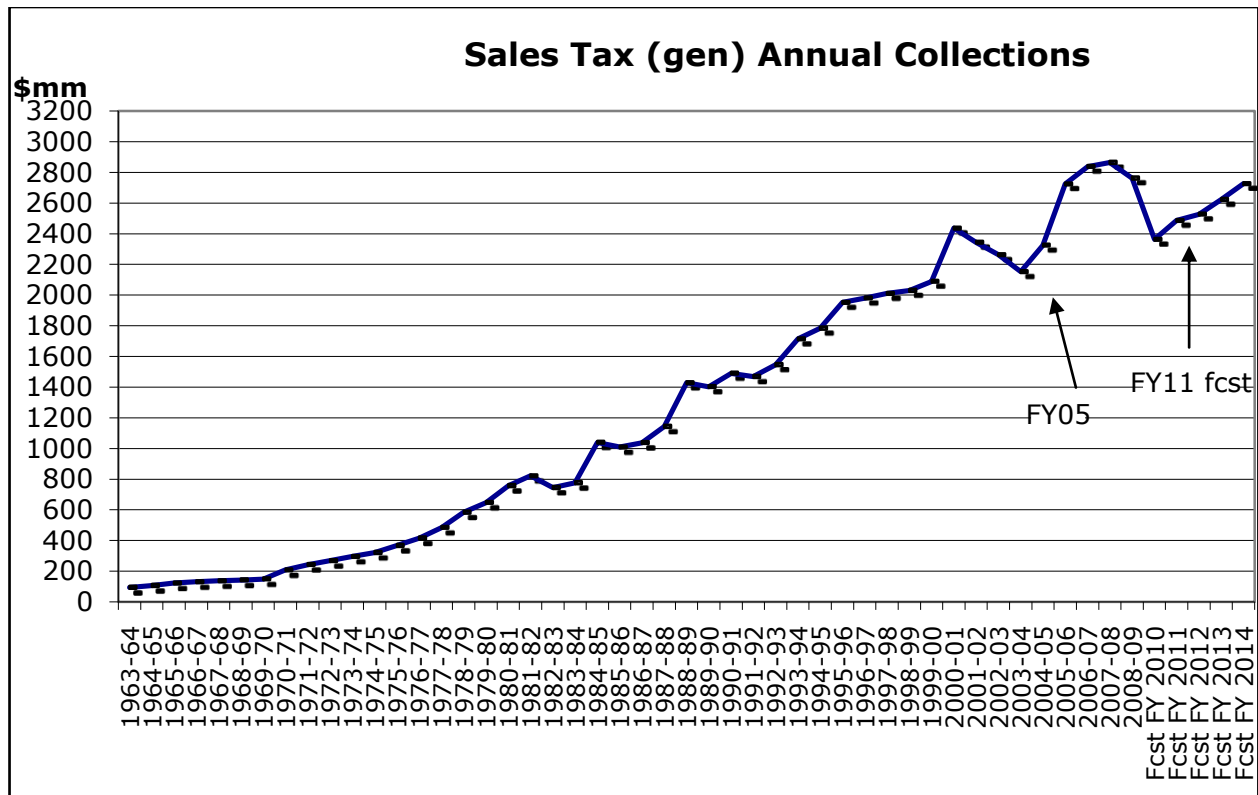
- The FY 10 Executive Budget includes \$10.999 billion in Federal Funds, a decrease of \$4.181 billion, or 27.5 percent, compared to Federal Funding of \$15.180 billion in FY 10.
- The FY 11 Executive Budget proposes total funding of \$24.227 billion, a decrease of \$5.4778 billion, or 18.4 percent, compared to the FY 10 Total Budget of \$29.705 billion.

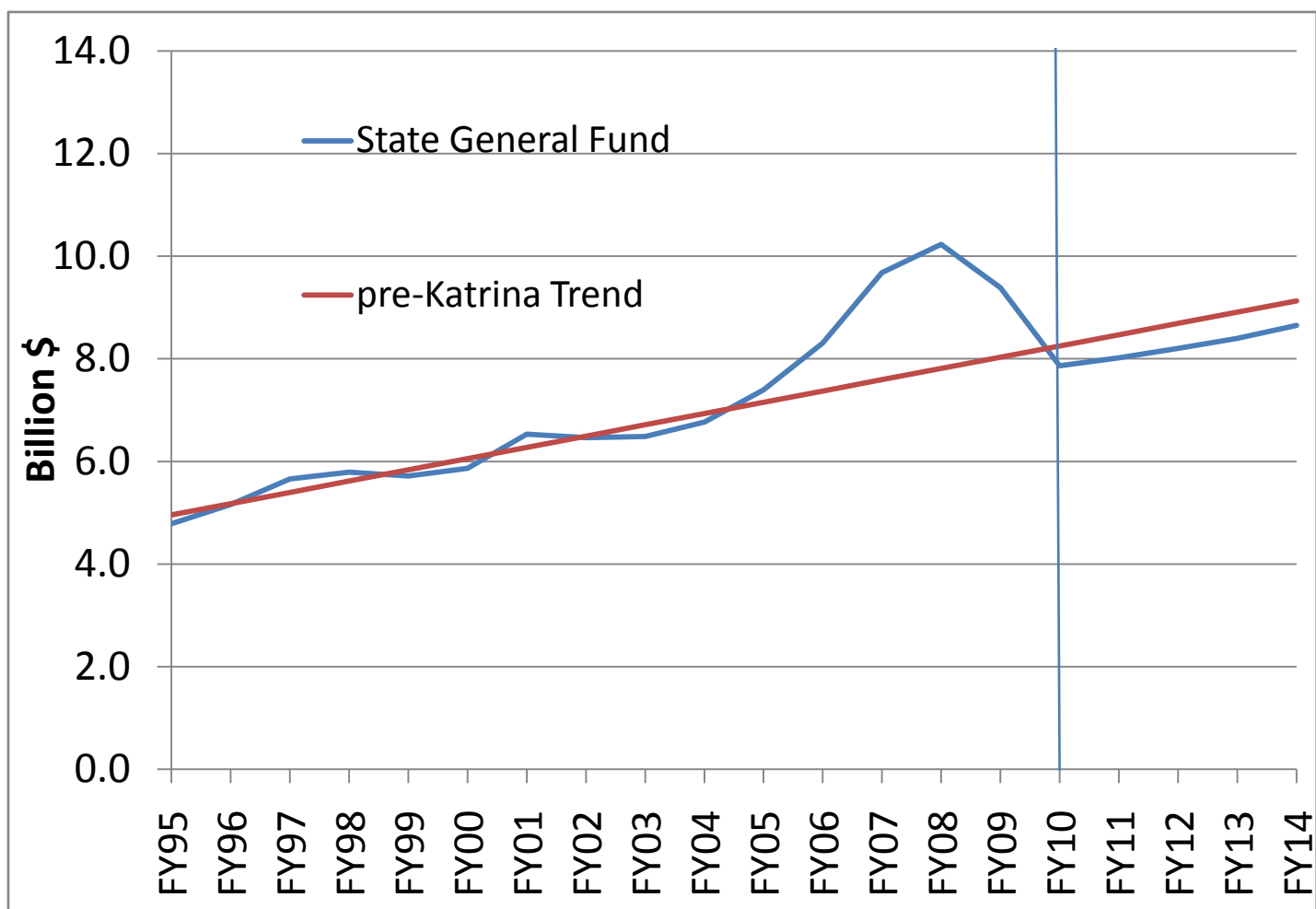
***Position Reductions.*** Along with these spending reductions, the Executive Budget calls for reducing the number of fulltime appropriated positions in the executive branch by 2,976. Following prior reductions of 3,326 fulltime appropriated positions through budgetary actions in FY 09 and FY 10, approval of this FY 11 recommendation would mean a total of 6,302 fulltime appropriated positions reduced since the beginning of the Jindal administration.

### ***Historical Trends: Normalizing Revenues, Sustainable Spending***

One way to understand the post-storm growth in government spending is to first visualize the spike that occurred in many of the sources of state government revenue, such as mineral revenue, general sales tax, and personal income taxes, as well as the trend in total general fund revenue, as pictured in the following graphs:





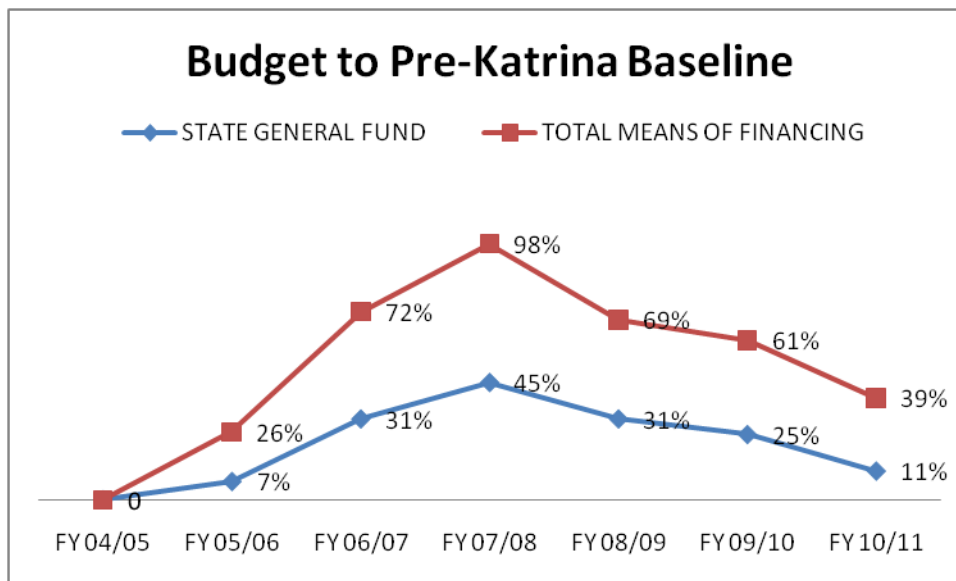


These graphs depict a clear picture, not only of a temporary period of extraordinary revenues, but also of a return to what would appear to be more ordinary levels, as reflected in forecasts showing revenues coming back in line with pre-storm trends. The graphs also show that what Louisiana government is now facing does not appear to be a “revenue problem” so much as a normalization of revenues.

Given these fiscal realities, the responsible approach is to recognize that state government expenditures must also return to levels that are sustainable over time, and that the steep and rapid post-storm spending increases, as many predicted, clearly were not a permanent reality.

Combined with tremendous amounts of federal dollars to the state, in just three years following the storms the total budget of the state nearly doubled, from the pre-storm level of \$18.4 billion in FY 05 to a high of \$36.3 billion budgeted for FY 08. But the growth was not solely because of federal funding, as general fund expenditures over the same time period grew by 45 percent, from \$7.2 billion budgeted in FY 05 to a record high \$10.5 billion in FY 08.

From FY 05 pre-storm levels, by FY 08 total spending for higher education had grown by 24 percent, the Department of Health and Hospital total budget had grown by 28 percent, total spending for social services was up 34 percent, and K-12 total spending increased by 41 percent.



Even as spending levels since FY 08 have been reduced to more sustainable levels, as seen in an FY 11 Executive Budget proposal with general fund expenditures down \$2.5 billion from that year, it's important to note that the FY 11 budget recommendation still contains \$785 million (or 11 percent) more in general fund and \$5.7 billion (or 39 percent) more in total funds compared to pre-storm FY 05 levels.

### **The Louisiana Way Forward Through Economic Challenges: Job Creation**

Since taking office, Governor Jindal has announced economic development wins that will create more than 35,000 new direct and indirect jobs, and generate more than \$4.6 billion in new capital investment. These results have not come by accident. Despite economic challenges across the nation, the Louisiana Way Forward means making a concerted and unwavering effort to grow the state's economy by keeping taxes low, reducing government spending, and providing businesses with the tools they need to succeed in a global economy.

As such, the FY 11 Executive Budget includes funding for important economic development initiatives that spur job creation and grow the economy, including:

- \$15 million in Statutory Dedications for the Rapid Response Fund to secure economic development opportunities
- \$4.4 million in Statutory Dedications for the Fast Start Program, which delivers comprehensive “turnkey” employee training for relocating or expanding businesses
- \$3 million in Statutory Dedications for the Small Business Surety Bond Program
- \$1.3 million in Statutory Dedications for Life Science Incubators (Wet Labs) in Baton Rouge, New Orleans, and Shreveport

- \$1 million in Statutory Dedications for Small Business Development Centers
- \$800,000 in Statutory Dedications for Small and Emerging Business Development
- \$450,000 in Statutory Dedications for Project Specific Site Preparation and Evaluation
- \$400,000 in Statutory Dedications for Louisiana Business Incubation Support

Most importantly, the FY 11 budget preserves the \$55 million fund balance in Louisiana's Mega-Project Development Fund as a critical tool for job creation and expanding our economy, and the administration will strongly oppose any efforts to divert those funds for other uses. It is an absolute top priority to keep our state's economy growing and creating more jobs for our people.

### **Streamlining Government, Improving Outcomes**

Making sure that state government lives within its means, however, does not mean returning to pre-storm quality of services. By working to streamline government and prioritizing spending to focus on delivering improved outcomes, we continue a process of ongoing reform in the way government does business, enhancing effectiveness of government even as it is downsized.

Examples of these efforts in the FY Executive Budget:

- The Department of Social Services is undertaking a major reorganization that will consolidate its current four offices to one, while also pursuing a departmental modernization initiative. A streamlined structure will be proposed to the Legislature that focuses on DSS' core competencies and prioritizes services in the field. The Office of Community Services and the Office of Family Support will be merged under one umbrella: the Office of Family and Child Services. A major functional change for DSS is the plan to transfer programs under Louisiana Rehabilitation Services, or LRS, and house them under the Louisiana Workforce Commission and the Department of Health and Hospitals. The new framework will transfer those programs to the agency that fits with its core competency. For example, those programs, such as Vocational Rehabilitation, that help clients find employment and develop a career will move to the Louisiana Workforce Commission, while other programs such as the Traumatic Head and Spinal Cord Injury Trust Fund will move to DHH.

DSS will reorganize support functions, field operations, and programming into a new organizational and delivery model. Overall, DSS will eliminate management layers that do not add value and result in reduced responsiveness to stakeholders/clients.

Additionally, DSS plans to move to a regional approach of service delivery. DSS will build partnerships with stakeholders, local providers and community partners statewide to help increase access and enroll clients for DSS services.

DSS modernization plans include the development and implementation of a Customer Service Call Center, Electronic Case Record, Client Web portal, Provider Web portal and Worker portal wrapped around existing legacy systems. Staff will be supported in intake and enrollment tasks by the call center, community partners and use of regional processing centers to receive and process documents. Further, business re-engineering

will reduce redundancy, errors, improve quality assurance, and streamline work processes. By adopting proven technologies through modernization, staff will be more efficient and have more manageable workloads, and field staff will have more time to provide direct services to families. Modernized systems will allow clients more options to access services while processing times for applications will decrease. All of these factors will result in more timely services and improved outcomes for the clients receiving those services.

- Act 523 of the 2009 Regular Session of the Louisiana Legislature created the Office of Coastal Protection and Restoration (OCPR) within the Office of the Governor. The Office of Coastal Protection and Restoration fundamentally restructures the state's coastal program, integrating staff at the Department of Natural Resources that were handling coastal restoration work with those employees at the Department of Transportation and Development who were working to build and maintain hurricane and storm surge protection structures. For the first time, Louisiana's coastal restoration and protection efforts have been integrated, streamlining the building process and ending the disparate attempts by multiple agencies to receive funding for similar tasks. The office will continue integration of the state's coastal efforts by limiting the number of staff hired and utilizing existing staff at other agencies to handle human resources, finances and budgets, information technology and legal assistance.

State coastal restoration and protection officials estimate approximately \$30 million in funds dedicated specifically to coastal restoration and hurricane protection will be saved over a five year period by utilizing personnel already working at other agencies and also working cooperatively with state colleges and universities to conduct research and gather data pertaining to restoration and protection efforts. Those savings will remain in the coastal protection and restoration fund and will be directed toward project development and construction.

- The Department of Transportation and Development will eliminate its photogrammetry airplane at a savings of \$292,000, and eliminate the Melville ferry, which has low ridership and a high average cost-per-crossing (\$85.29), at a savings of \$213,039.
- Currently, training for state government employees is split between the Comprehensive Public Training Program (CPTP) in the Division of Administration, which teaches advanced level classes, and Civil Service teaching the introductory classes. Transferring CPTP to Civil Service will allow for a more integrated training program, along with providing online training, bringing greater efficiency. This increased efficiency and coordination yields a 20 percent savings. Louisiana spends \$1,080 per employee on annual training. That is the highest among 23 states reporting, according to the 2008 Pew Center report, "Grading State Government."
- As it is done in most other states, partnering with private physicians at Louisiana's Veterans homes will bring \$1,089,749 in savings.



- The Forcht-Wade Correctional Center (FWCC) in Keithville is being converted into a substance abuse treatment facility. Substance abuse is an underlying cause in the majority of the crimes that offenders have committed. The conversion of FWCC to a substance abuse treatment center will serve a vital role in the Department's efforts to reduce recidivism and to successfully reintegrate offenders into society. Furthermore, the Department will realize an annualized savings of \$1.7 Million by converting FWCC into a substance abuse treatment facility and consolidating the skilled nursing units and the reception and diagnostic programs at Elayn Hunt Correctional Center (EHCC).
- Pharmacy Services will be privatized at all state correctional facilities, resulting in savings of approximately \$800,000. Administrative Services at all state correctional facilities and units will be consolidated on a regional basis, saving \$1 million. In addition, video technology will be used to provide for monitoring of offenders from a central location, saving \$1.2 million.
- The Department of Public Safety will eliminate the Oil Spill Coordinator's Outreach Program, at a savings of \$112,000.
- Louisiana Economic Development eliminated its Workforce Development and Training Programs, saving \$2.5 million in traditional, less-effective work force grants, and has shifted all workforce development funding to Louisiana FastStart, a new comprehensive job recruiting, screening and training program. In FY 11, because of FastStart, Entertainment training will also be eliminated, for a savings of \$1.5 million.
- At the Department of Environmental Quality, the Office of Environmental Assessment and its activities have been consolidated into the Office of Environmental Compliance and the Office of Environmental Services. Outsourcing the DEQ Laboratory Services Division yields a net savings of \$1.3 million.
- A system of care is being coordinated between the Department of Social Services, Department of Health and Hospitals and the Office of Juvenile Justice for youth mental health services that are reimbursable through Medicaid, thus leveraging Medicaid dollars and providing a \$1.1 million savings in State General Fund.
- The Department of Wildlife and Fisheries is eliminating its publication *Louisiana Conservationist*, at a savings of \$220,000.
- To increase transparency and accountability in the budgeting process, all institutions of higher education and LSU's Health Care Services Division (HCSO) will be required to bring their non-T.O. FTE positions "on-budget" as Table of Organization, in the same manner followed by the other executive branch agencies.
- Medicaid will be transitioned to an integrated delivery system with care coordination that will eventually yield a \$45 million savings.

## **Education: Protecting Dollars to the Classroom, Pursuing Reforms**

### **K-12 Public Education**

While other departments and programs saw FY 10 midyear budget reductions, the Minimum Foundation Program (MFP), which provides funding for local school districts, received an increase of \$52.6 million. For FY 11, the funding level for MFP is protected, with total funding recommended at \$3,308,741,821.

Between FY 05 and FY 11, total state spending per pupil rose from \$3,696 to \$5,035. In FY 05, MFP funding was \$2,624,561,103, with a student count of 710,079. With student count now at 657,169, the FY 11 recommended funding level reflects an increase of more than \$684 million since FY 05, even while the student count is 52,910 less than it was in FY 05.

During the 2009 legislative session, Act 310 provided that formula funding generated by certain students -- special education, at-risk, gifted and talented, and career and technical education students -- was to be spent for the intended purpose to benefit the targeted students. As such, the law required the each school's governing authority to assure that such weighted funding be spent on "personnel, professional services, instructional materials, equipment, and supplies that serve the unique needs of students who generate such funds." The Department of Education is working to assist districts in this transition and in making more strategic fiscal decisions that promoted better student performance before the beginning of the 2010-11 school year.

We will also pursue legislation in the upcoming legislative session to reduce red tape in the state's education system and make it easier for administrators to improve performance in schools, in three important ways. First, the legislation will help reduce burdensome regulations currently placed on schools that may hinder academic growth. Second, it will equip low-performing schools on the verge of state takeover with the tools needed to improve before they are placed in the Recovery School District (RSD), and third, the legislation will help scale up comprehensive school reform in struggling schools to ensure that every Louisiana child has access to a high-quality education.

The FY 11 Executive Budget also continues to invest in strategic initiatives designed to improve academic performance of students, including

- \$36.8 million in total funding, including \$8.6 million in general fund, for the LA Literacy and Numeracy initiative;
- \$7 million in total funding, including \$4.4 million in general fund, for the High School Redesign Program;
- \$17 million in total funding, including \$2 million in general fund, for Career Technical Education;

- \$11.95 million in TANF funds for the Jobs for America’s Graduates program and for Educational Mission to Employ Louisiana’s Youth (EMPLoY), an effective drop-out prevention initiative;
- \$8 million in Statutory Dedication funding to continue Student Scholarships; and
- \$75.9 million in total funding, including \$15.4 million in general fund and \$60.5 million in TANF for the Cecil J. Picard LA 4 Pre-K Program.

### Higher Education

We worked to avoid additional near-term cuts to such an extent that out of a \$1 billion shortfall, the FY 11 Executive Budget proposes no reduction in state funding to Higher Education schools in FY 11, but does non-recur one-time special legislative projects, and reduces \$5.2 million (27.3 percent) for higher education management boards, similar to a motion initially adopted by PERC, which recommended reducing their funding by 30 percent.

The FY 11 Executive Budget provides \$4.7 million in additional funds to fully fund Taylor Opportunity Program for Students (TOPS), with a total funding of \$134.6 million. Also, \$26.4 million in State General Fund for Go Grants is unchanged after the FY 10 midyear adjustments, as Federal funding for Pell Grants is expected to increase.

The coming year will be a crucial period to put in place necessary reforms that set Higher Education on a long-term path of higher performance and sustainability. With the reduction of federal Medicaid match and the loss of federal stimulus support for Higher Education in FY 12, the time to prioritize and focus strategically is now, rather than face anticipated future reductions without a plan that safeguards our goals.

And our goals must be clear: That educational attainment in Louisiana is in line with the economic development needs and opportunities of our state, and that our Higher Education institutions are preparing students for the workplace with the skills required to meet those needs and to take advantage of those opportunities.

To get there, we must also be clear and honest about the fact that, to date, we have fallen far short of those goals, despite the increased resources the state has devoted to Higher Education over the past decade. A look at the statistics shows:

- According to the Chronicle of Higher Education, in Louisiana “state appropriations for higher education doubled between the 1999 and 2009 fiscal years, the third greatest increase among the states for that time period.”
- According to the Southern Regional Education Board (SREB), Louisiana’s six-year graduation rate is 37 percent compared to 53 percent for all SREB states.
- Also according to SREB, in Louisiana 72 percent of students are enrolled in four-year institutions and 28 percent in two-year schools, compared to averages in other SREB states of 55 percent in four-year schools and 45 percent in two-year schools.

- According to the Delta Project on Postsecondary Education Costs, Productivity, and Accountability, “Louisiana pays as much as \$5,200 per year for each student in a public research university, more than triple what it provides for a student in a two-year college.”
- According to Illinois State University’s Center for the Study of Education Policy (the Grapevine report), in FY 09 Louisiana ranked 8<sup>th</sup> in the nation for appropriations of state tax funds for operating expenses of Higher Education per \$1,000 in personal income, and ranked 7<sup>th</sup> in the nation in Higher Education appropriations per capita.

These facts make it impossible to avoid the conclusion that Louisiana must make fundamental changes not only in the way we deliver services to students, but also in how those services are funded, for the best interests of the students and the economic future of the state.

The bottom line is that graduation rates throughout our higher education system must be improved, and their funding should follow accordingly. And whether it’s raising standards for admittance into four-year schools, achieving a better balance between enrollments at four-year and two-year schools, consolidating academic programs to create centers of excellence, consolidating management boards, or using performance as a path to tuition flexibility, the bottom line is that all reform options to improve the performance of Louisiana’s Higher Education system must be on the table.

This work to reform, streamline, and improve the performance of Higher Education would be necessary regardless of the fiscal challenges faced by the state. But given fiscal realities, this effort is imperative.

### **Mitigating Reductions in Health Care**

Given the unique challenges posed by the loss of federal match associated with the Federal Medical Assistance Percentages (FMAP) and the loss of federal funding associated with the Disproportionate Share Hospital Payments (DSH) audit rule, the FY 11 Executive Budget takes steps previously announced to help mitigate reductions in health care. As such, \$76 million of State General Fund surplus and \$233.7 million in collections from the Louisiana Tax Delinquency Amnesty Act of 2009 will be used to defease debt in FY 10, thereby reducing State Debt Service by \$309.7 million in FY 11. The funds made available from this reduction, in turn, are budgeted in FY 11 for the Department of Health and Hospitals.

While there is discussion in Washington about extending the enhanced federal Medicaid match rate for six months for all states, without a permanent fix to Louisiana’s faulty FMAP calculation, combined with the loss of federal stimulus funding, Louisiana will still face a projected \$1.7 billion shortfall for FY 12. As such, should the extension be granted, it will be crucial to “wall off” utilizing the \$309.7 million for other programs in the upcoming fiscal year, and instead save it to help mitigate health care reductions in FY 12.

### Health Care Funding in FY 11 Budget

The budget for the Department of Health and Hospitals (DHH) absorbs significant fiscal impact from federal policies adversely impacting Louisiana. The expected reduction of Louisiana's base Federal Medical Assistance Percentage (FMAP) due to the flawed federal formula which fails to account for major disasters, the Disproportionate Share Hospital (DSH) Audit Rule, loss of both Social Service Block Grant and Primary Care Access and Stabilization Grant dollars, and the scheduled expiration of the enhanced FMAP in December 2010 combine to a loss of \$663.3 million of federal funding. As we prepare our budget for FY 11, we are mindful that the impact of lost FMAP is not fully annualized until FY 12, when the full negative impact will be absorbed by the state in the absence of Congressional action to fix the flawed formula.

The budget recommendation views these challenges through the lens of reform. Many of the state's current practices and delivery models rely disproportionately on funding streams that support practices which are both more expensive and also less effective than more modern alternatives. For instance, the mental health system has historically relied extensively on DSH funding, which can only be used to support institutional services. Thus, over the years, the state has been slow to invest in community-based alternatives to institutionalization. While most states have transformed their mental health systems such that the average state spends one-third of its mental health budget on inpatient hospital-based services, Louisiana continues to spend 57 percent of its mental health budget on inpatient hospital-based institutional services. The FY 11 budget proposes changes in the state's approach to services for persons with mental illness as well as persons with developmental disabilities – with the fundamental goal of helping each individual in the most appropriate care setting.

The Department made several recommendations to the Commission on Streamlining Government, and most of the recommendations were adopted as recommendations of the Commission. Some of the Commission's recommendations included in the Department's budget are: downsizing, merging and privatization of selected supports and services centers; reduction of reliance on institutional settings for mental health services; imposition of a co-pay for non-emergent use of emergency departments in the Medicaid program; transition of Medicaid to an integrated delivery system with care coordination; and movement of some services from other departments to DHH, and from DHH to other departments (such as moving the administration of the Safe Drinking Water Revolving Loan Fund to DEQ) to increase operational efficiencies and improve quality and service.

The DHH budget includes \$14.3 million in non-recurring funds to be used as part of a new partnership with Our Lady of the Lake Regional Medical Center and Louisiana State University. This new partnership will result in expanded access to primary and urgent care services for the poor, a new Level-1 Trauma Center for the region, and enhanced medical training opportunities for medical students, residents and those training for professions in the allied health field. The partnership will result in new physical patient care capacity as well as physical space for enhanced academic capacity for LSU. Finally, the partnership will save the state as much as \$400 million in capital expenditures, which will not need to be expended to replace Earl K. Long Medical Center.

The Total DHH funding for FY 2010-2011 is \$7.73 billion. This includes proposed state general fund expenditures of \$1.684 billion. \$309.7 million of the SGF funded in the budget is contingent upon the use of the FY 09 SGF surplus and collections from the Louisiana Tax Delinquency Amnesty Act of 2009 to decrease debt in FY 2009-2010; thereby, reducing state debt service by \$309.7 million in FY 2010-2011. The total impact of this contingency is \$1.1 billion, including the federal match.

#### *Disproportionate Share Audit Rule – Impact on LSU, Mental Health and Rural Hospitals*

The permanent loss of federal dollars from the DSH audit rule results in a substantial and permanent impact on funding streams for the state's system of public, LSU-operated hospitals, state mental health institutions and rural hospitals. The total loss of allowable DSH is \$198.5 million. Of this loss in total funds, the state projects: \$135.6 million will be attributed to LSU; \$42.9 million will be attributed to the DHH mental health institutions; \$20 million will be attributed to the rural hospitals.

#### *Transformation of Mental Health Services*

The loss of \$42.9 million of allowable cost to the state's public mental health institutions represents approximately 22 percent of the operating budget for these institutions. The FY 2010-2011 DHH budget proposes to replace \$30.9 million of the lost dollars with state sources of funding in the Office of Mental Health. However, this investment presents the state with the opportunity to begin a statewide transformation of mental health delivery toward a community-based model of care and increased use of less costly residential treatment rather than higher cost institutional care.

Because of the reliance on DSH to fund our mental health institutions, the state has historically spent most of its mental health resources in this setting. In fact, last year, Louisiana spent 57 percent of its mental health investment on inpatient hospital services, and only 43 percent in community-based care. By comparison, most states spend closer to two-thirds of their mental health resources on community-based access rather than inpatient care. The Olmstead decision by the United States Supreme Court hastened the move away from institutional care when community-based alternatives are available.

Over FY 2008-2009 and FY 2009-2010, the Department invested \$23 million in new community-based services for families and children in the greater New Orleans region – services unavailable prior to this investment. New Forensic Assertive Community Teams, Assertive Community Teams, Child and Adolescent Response Teams, Permanent Supported Housing, Crisis Response Systems, Multi-Systemic Therapy, Dialectical Behavioral Therapy and trauma-related therapies for the post-Katrina population serve more than 1,800 children, families and individuals each year. During FY 2009-2010, the Department implemented community mental health clinics for children and youth, which are now serving 690 children and their families. In FY 2009-2010, so far, 300 adult hospitalizations have been avoided thanks to community-based services. Further, the Metropolitan Human Services District served more than 11,000 adults with mental health treatment, medication management and individual counseling through their community mental health clinics.

The FY 2010-2011 budget invests \$15.3 million SGF (\$19 million annualized) across the state in each administrative region and human services district for the implementation of similar community-based programs and \$21 million of SGF (including an estimated \$2.1 million of one-time transition costs) to the institutions to help offset a portion of the lost federal funds.

In addition, \$9.9 million in total funds is added to the budget due to increased utilization of Multi-Systemic Therapy for children and \$5.8 million is added due to increased utilization of Mental Health Rehabilitation. Multi-Systemic Therapy provides intensive community-based treatment for severe behavioral problems in children, thus avoiding institutional care. Of children receiving MST, 80 percent re-engaged in school and out-of-home placement decreased by 64 percent.

According to studies conducted by Dartmouth, Indiana University and Purdue University-Indianapolis, Assertive Community Teams have been proven to reduce hospital days by up to 85 percent, reduce jail days by 83 percent, reduce homelessness by 37 percent, and improve clinical symptoms by 26 percent. And according to the Substance Abuse and Mental Health Services Administration (SAMHSA), the United States Surgeon General and the National Alliance on Mental Illness (NAMI), effective crisis response systems reduce community reliance on institutional care and are better able to link people in mental health crisis 40-60 percent of the time, thus avoiding institutionalization. Functional Family Therapy has been shown to reduce severely disruptive behavior in youths, thus decreasing the need for out-of-home placement. It also reduces recidivism by up to 60 percent. These investments will have a long-term impact of reducing reliance on institutional care, and providing more appropriate care in the settings most likely to have a positive, lasting impact on providing individuals with the opportunity to thrive.

In addition to the above investment, DHH will add 118 therapeutic residential treatment beds for individuals who do not need inpatient hospital level of care, but rather, could reside closer to their own community while receiving the supports they need to be independent. Compared to the average cost of state-hospitalization of \$390 per day, therapeutic residential treatment beds are reimbursed approximately \$70 per day in the private sector.

In addition, 138 civil beds currently used for patients with forensic involvement will be converted to 135 Secure Forensic Facility beds, which provide the same level of security and segregation for these individuals at much less cost. Individuals placed in these beds do not need inpatient hospital levels of clinical care and are part of the patient population that will no longer be eligible for reimbursement under the new DSH audit rule.

### Local Governing Entities

The Department will launch the South Central Louisiana Human Services (SCLHAS) Authority, a local government entity operated by a local board of directors in Region 3 of the state. \$24.8 million will be transferred from the Offices of Addictive Disorders, Citizens with Developmental Disabilities and Mental Health to the SCLHAS, and 123 positions will be converted to non-appropriated positions as a part of the transfer of funding. The SCLHAS will ultimately be

responsible for community mental health services, addictive disorders and services for persons with Developmental Disabilities. Creation of this Authority is another step toward increased community involvement and accountability in the improvement of health outcomes, and the movement toward community-based access to services. This Authority, governed by a board of local leaders and stakeholders, will reduce unnecessary inpatient institutional care, and create more local entry points for services.

Region 4 of the state has recently appointed its local board of directors and is pursuing Phase I of the readiness assessment to become an independent human services authority.

### LSU Hospitals

The loss of \$135.6 million of allowable cost creates a shortfall for LSU, and, according to LSU, cannot be absorbed without the immediate closure of multiple hospitals. The budget recommendation proposes to replace the lost DSH funds with \$122.5 million in SGF and \$13.1 million in federal funds due through cost reports.

It should be noted that, due to the federal policy changes reducing the DSH funds to LSU, the state's increased financial commitment in this budget is transitory in nature. LSU and DHH are directed to develop a transition plan that 1) Preserves the major teaching hospitals in Shreveport, Baton Rouge and New Orleans, 2) identifies, community by community, where private hospital capacity exists and mechanisms for utilizing such capacity, 3) preserves and enhances the primary care network of clinics and access to primary care services, 4) preserves hospitals that are sole community providers, and 5) develops a financing mechanism to support the continued mission of access to care. This plan is due by January, 2011.

### Rural Hospitals

The budget includes \$11 million SGF to offset the loss of \$20 million in allowable cost. In addition, the Department will be filing a bill that will authorize an increase in rural hospital reimbursement under Medicaid up to the Medicare reimbursement levels. This will allow the state to match some of the \$11 million, which will help offset the loss of DSH. It is expected that as much as \$7 million of the funds will be matched by federal funds, while up to \$4 million will be direct grants to hospitals – thus fully offsetting the loss of DSH.

### Providing Independence and Integration for Persons with Developmental Disabilities

With the passage of the Developmental Disabilities Assistance and Bill of Rights Act of 2000, the United States Congress proclaimed that persons living with developmental disabilities have the right to “live independently, exert control and choice over their own lives and to fully participate in and contribute to their communities through full integration and inclusion” in all aspects of the mainstream of human society. Congress further declared that the goals of the Nation included ensuring individuals with developmental disabilities “live in homes and communities in which they can exercise their full rights and responsibilities” and “achieve full integration and inclusion in society, in an individualized manner, consistent with the unique strengths, resources, priorities, concerns, abilities and capabilities of each individual.”



The policy priority of the Administration is to ensure we afford every person with developmental disabilities the opportunity to achieve their God-given potential to achieve their goals in the most appropriate setting possible.

In an effort to achieve this goal, the Department is seeking to increase its partnerships with private group homes for persons with developmental disabilities rather than operate state-run group homes. Today, more than 93 percent of residents of community homes are served by a private provider, at a cost nearly \$60,000 per individual less than the cost of state-operated group homes. Approximately 150 individuals will be affected by this initiative. As a result of the annualization of this initiative, the Department has proposed adding \$3.8 million to the budget to *serve an additional 150 persons* now on the waiting list for services in the New Opportunities Waiver (NOW) program.

An additional \$83.2 million of total funds has been included in the budget to pay for annualization of existing waiver slots, case management, children's choice and other expenditures to maintain the community-based programs for persons with developmental disabilities.

According to the most recent data available, "State of the State in Developmental Disabilities" – University of Colorado, 2008 – Louisiana ranks 8<sup>th</sup> in the nation in overall fiscal effort related to spending for individuals with Developmental Disabilities. Louisiana spends \$6.61 per \$1,000 of personal income compared with the national average of \$4.12. The state is not spending these dollars in the most efficient, nor the least restrictive manner, however. Louisiana ranks 1<sup>st</sup> in fiscal effort directed towards institutions – spending 38 percent of its expenditures on institutionalization of individuals with developmental disabilities compared to the national average of 19 percent.

The state spends double the national average on institutions for two reasons. First, according to the University of Minnesota Institute on Community Inclusion, Louisiana has more individuals in ICF/DDs per capita than any other state – 123.9 per 100,000 people – which is almost 4 times the national average of 32.0 per 100,000 people. Furthermore, Louisiana ranks 3<sup>rd</sup> highest in the usage of large ICF/DDs although the compelling literature shows that outcomes are better in smaller facilities, and even better yet in the community setting. Second, the state spends half of these institutional expenditures on state-run facilities rather than utilizing the capacity of privately operated facilities, which cost as much as \$100,000 per person per year less to operate.

In light of this compelling evidence, the Department is proposing privatization the Acadiana Supports and Services Center, and transitioning all residents of Northeast Supports and Services Center (NESSC) with long term care institutional support needs to Northwest Supports and Services Center in Shreveport. The Department will continue its effort to implement resource allocation to ensure each person served receives the resources needed to achieve independence in the most integrated community setting appropriate for their goals.

Of 71 individuals residing at NESSC in Ruston, only seven percent are from that immediate region. Eighteen percent are actually from the Shreveport region served by the Northwest

Supports and Services Center in Shreveport, 10 percent from Central Louisiana served by Pinecrest Supports and Services Center in Pineville and 51 percent from South Louisiana served by the North Lake, Bayou and Acadiana Supports and Services Centers. In a sample of NESSC residents, approximately half the residents had lower level needs, achieving a “level 1 or 2” in their assessment, meaning they could thrive in a community-based residential setting with the proper supports.

The consolidation of NESSC into NWSSC will result in \$6.5 million of savings in FY 11.

#### *Transforming Medicaid: Improving quality and access for one-quarter of Louisiana’s residents*

Louisiana Medicaid provides health care coverage for 27 percent of Louisiana’s residents – more than 1.2 million people. And despite the best efforts of our state’s hard-working health care providers, the system suffers from little coordination, soaring costs, fraud, waste and poor outcomes. Not surprisingly, Louisiana’s rate of avoidable hospitalization is among the highest in the country – leading to higher avoidable costs.

The budget directs the Department to implement the reforms passed by the Legislature. A phase-in will begin early in 2011, leading to modest savings of \$15 million in FY2010-2011, with substantially higher savings expected in FY 2012.

Medicaid, as the largest source of health coverage, is the state’s best vehicle to help improve health outcomes, yet, with the exception of efficiencies implemented recently, little more is done to improve care than the paying of claims. Among other things, the features of a reformed Medicaid will include:

- Market-based competitive rates for certain specialties
- Choice for consumers, with choice counseling available
- Management of chronic disease to ensure reduced hospitalization and improved quality of life
- Accountability for outcomes of the populations served by Coordinated Care Networks – the state will select quality measures that correlate with improved health outcomes. These measures will be published on [www.healthfinderla.gov](http://www.healthfinderla.gov) to bring transparency and accountability to the system.
- Aggressive fraud and abuse detection by the CCNs and the state

#### *Privatization of Services in the Office for Addictive Disorders*

The state operates or contracts with the private sector for 582 inpatient treatment beds for individuals with addictive disorders. The Office for Addictive Disorders will privatize the remaining 257 state-run beds at six facilities throughout the state, resulting in a savings of \$2.5 million in SGF. These savings are net of increases to private provider rates to bring Louisiana closer in-line with the southern regional average. A reduction of \$6.3 million in federal funds due to the expiration of federal grants such as Access to Recovery II will be partially offset by an increase of \$2.37 million to continue the Access to Recovery II program.

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